



**REPORT OF THE AUDITOR OF PUBLIC ACCOUNTS
AUDIT EXAMINATION OF THE
GRAVES COUNTY CLERK**

Calendar Year 2000

**EDWARD B. HATCHETT, JR.
AUDITOR OF PUBLIC ACCOUNTS
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EXECUTIVE SUMMARY
AUDIT EXAMINATION OF THE
GRAVES COUNTY CLERK

Calendar Year 2000

The Auditor of Public Accounts has completed the Graves County Clerk's audit for calendar year 2000. We have issued an unqualified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

Financial Condition:

Excess fees decreased by \$55,942 from the prior calendar year, resulting in excess fees of \$239,631 as of December 31, 2000 that were paid to the county. Revenues increased by \$208,006 from the prior year and disbursements increased by \$265,949.

Report Comments:

The County Clerk Should Require Depository Institutions To Pledge Or Provide Additional Collateral Of \$116,028 To Protect Deposits

Lawsuit Dismissed:

A lawsuit styled Graves County Fiscal Court vs. Glen Bruce, former Graves County Clerk, Case 98-CI-331, was dismissed without prejudice for lack of prosecution. It concerned \$15,857 of expenditures disallowed in the 1993 and 1994 calendar year audits of the former Graves County Clerk. The excess fees reported and due to the county in 1993 and 1994 audits totaled \$31,548. The former Graves County Clerk, Glen Bruce, had a counterclaim against Graves County for \$70,820, which was also dismissed for the same reason (lack of prosecution).

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EDWARD B. HATCHETT, JR.
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky
Honorable Paul E. Patton, Governor
T. Kevin Flanery, Secretary
Finance and Administration Cabinet
Dana Mayton, Secretary, Revenue Cabinet
Honorable Tony Smith, Graves County Judge/Executive
Honorable Barry M. Kennemore, Graves County Clerk
Members of the Graves County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of receipts, disbursements, and excess fees of the County Clerk of Graves County, Kentucky, for the year ended December 31, 2000. This financial statement is the responsibility of the County Clerk. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for County Fee Officials issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the County Clerk's office prepares the financial statement on a prescribed basis of accounting that demonstrates compliance with the modified cash basis and laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the receipts, disbursements, and excess fees of the County Clerk for the year ended December 31, 2000, in conformity with the basis of accounting described above.

To the People of Kentucky
Honorable Paul E. Patton, Governor
T. Kevin Flanery, Secretary
Finance and Administration Cabinet
Dana Mayton, Secretary, Revenue Cabinet
Honorable Tony Smith, Graves County Judge/Executive
Honorable Barry M. Kennemore, Graves County Clerk
Members of the Graves County Fiscal Court

In accordance with Government Auditing Standards, we have also issued our report dated January 4, 2002, on our consideration of the County Clerk's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Based on the results of our audit, we have presented the accompanying comment and recommendation, included herein, which discusses the following area of noncompliance:

- The County Clerk Should Require Depository Institutions To Pledge Or Provide Additional Collateral Of \$116,028 To Protect Deposits

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Ed Hatchett", with a stylized flourish at the end.

Edward B. Hatchett, Jr.
Auditor of Public Accounts

Audit fieldwork completed -
January 4, 2002

GRAVES COUNTY
BARRY M. KENNEMORE, COUNTY CLERK
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES

Calendar Year 2000

Receipts

State Grants	\$	9,870
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State Fees For Services		14,234
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Fiscal Court		29,703
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Licenses and Taxes:

Motor Vehicle-

Licenses and Transfers	\$ 894,503	
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Usage Tax	3,672,159	
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Tangible Personal Property Tax	2,007,071	
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Licenses-

Fish and Game	6,541	
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Marriage	7,402	
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Occupational	1,615	
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Spouse Abuse	3,290	
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Deed Transfer Tax	54,306	
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Delinquent Tax	235,407	6,882,294
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Fees Collected for Services:

Recordings-

Deeds, Easements, and Contracts	\$ 19,112	
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Real Estate Mortgages	38,008	
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Chattel Mortgages and Financing Statements	120,245	
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Powers of Attorney	1,569	
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All Other Recordings	37,072	
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Charges for Other Services-

Copywork	8,384	224,390
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Other:

Postage	\$ 16,304	
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Miscellaneous	1,070	17,374
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Interest Earned		8,687
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Gross Receipts	\$	7,186,552
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GRAVES COUNTY
 BARRY M. KENNEMORE, COUNTY CLERK
 STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES
 Calendar Year 2000
 (Continued)

Disbursements

Payments to State:

Motor Vehicle-

Licenses and Transfers \$ 686,097

Usage Tax 3,562,348

Tangible Personal Property Tax 798,314

Licenses and Taxes-

Fish and Game 6,321

Delinquent Tax 48,198

Legal Process Tax 33,965 \$ 5,135,243

Payments to Fiscal Court:

Tangible Personal Property Tax \$ 173,614

Delinquent Tax 35,061

Deed Transfer Tax 51,591

Occupational Licenses 1,011 261,277

Payments to Other Districts:

Tangible Personal Property Tax \$ 945,473

Delinquent Tax 84,234 1,029,707

Payments to Sheriff

5,826

Payments to County Attorney

39,833

Operating Disbursements and Capital Outlay:

Personnel Services-

Deputies' Salaries \$ 284,579

Employee Benefits-

Employer's Share Social Security 25,240

Contracted Services-

Insurance/Bonds 1,715

Election Expense 1,234

GRAVES COUNTY
 BARRY M. KENNEMORE, COUNTY CLERK
 STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES
 Calendar Year 2000
 (Continued)

Disbursements (Continued)

Operating Disbursements and Capital Outlay (Continued):

Materials and Supplies-		
Office Supplies	1,563	
Microfilm/Shelving Grant Expenditures	9,870	
Miscellaneous	339	
Other Charges-		
Conventions and Travel	3,100	
Dues	1,050	
Postage	11,249	
Refunds	16,849	
Tax Bill Preparation	8,007	
Capital Outlay-Office Equipment	<u>41,703</u>	<u>406,498</u>
Total Disbursements		<u>\$ 6,878,384</u>
Net Receipts		\$ 308,168
Less: Statutory Maximum	\$ 63,543	
County Clerk's Training Incentive	<u>1,394</u>	<u>64,937</u>
Excess Fees		\$ 243,231
Less: Expense Allowance		<u>3,600</u>
Excess Fees Due County for Calendar Year 2000		\$ 239,631
Payments to County Treasurer-		
February 12, 2001	\$ 225,000	
March 12, 2001	<u>14,631</u>	<u>239,631</u>
Balance Due at Completion of Audit		<u><u>\$ 0</u></u>

The accompanying notes are an integral part of the financial statement.

GRAVES COUNTY
NOTES TO FINANCIAL STATEMENT

December 31, 2000

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of receipts over disbursements to facilitate management control, accountability, and compliance with laws.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, certain receipts and certain expenditures are recognized as a result of accrual at December 31, 2000.

The measurement focus of a fee official is upon excess fees. Remittance of excess fees is due to the County Treasurer in the subsequent year.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the County Clerk's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Employee Retirement System

The county officials and employees have elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a multiple-employer public retirement system that covers all eligible full-time employees. Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5.0 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 7.17 percent.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65.

GRAVES COUNTY
 NOTES TO FINANCIAL STATEMENT
 December 31, 2000
 (Continued)

Note 2. Employee Retirement System (Continued)

Historical trend information pertaining to CERS' progress in accumulating sufficient assets to pay benefits when due is present in the Kentucky Retirement Systems' annual financial report which is a matter of public record.

Note 3. Deposits

The County Clerk maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the County Clerk and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. The County Clerk entered into a written agreement with the depository institution and met requirements (a), (b), and (c) stated above. However, as of April 4, 2000, the collateral and FDIC insurance together did not equal or exceed the amount on deposit, leaving \$116,028 of public funds uninsured and unsecured.

The county official's deposits are categorized below to give an indication of the level of risk assumed by the county official as of April 4, 2000.

	<u>Bank Balance</u>
Insured or collateralized with securities held by pledging depository institution in the county official's name	\$ 496,685
Uncollateralized and uninsured	<u>116,028</u>
Total	<u>\$ 612,713</u>

Note 4. Local Records Grant

The Graves County Clerk received a local records grant from the Kentucky Department for Libraries and Archives in the amount of \$ 9,870 in 1999. All funds were expended during calendar year 2000 to purchase roller shelving and a roller shelf desk for the clerk's office.

Note 5. Land Condemnation Account

The Graves County Clerk maintains a certificate of deposit with Integra Bank (formerly First Kentucky Bank) titled *Land Condemnation Account*. Interest is paid by check to the County Clerk's office and is deposited into the fee account quarterly. The balance of this certificate of deposit was \$1,200 as of December 31, 2000.

GRAVES COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 2000
(Continued)

Note 6. Lawsuit Dismissed

A lawsuit styled Graves County Fiscal Court vs. Glen Bruce, former Graves County Clerk, Case 98-CI-331, was dismissed without prejudice for lack of prosecution. It concerned \$15,857 of expenditures disallowed in the 1993 and 1994 calendar year audits of the former Graves County Clerk. The excess fees reported and due to the county in 1993 and 1994 audits totaled \$31,548. The former Graves County Clerk, Glen Bruce, had a counterclaim against Graves County for \$70,820, which was also dismissed for the same reason (lack of prosecution).

COMMENT AND RECOMMENDATION

GRAVES COUNTY
BARRY M. KENNEMORE, COUNTY CLERK
COMMENT AND RECOMMENDATION

Calendar Year 2000

STATE LAWS AND REGULATIONS:

The County Clerk Should Require Depository Institutions To Pledge Or Provide Sufficient Collateral Of \$116,028 To Protect Deposits

On April 4, 2000, \$116,028 of the County Clerk's deposits of public funds in depository institutions were uninsured and unsecured. According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with Federal Deposit Insurance Corporation insurance, equals or exceeds the amount of public funds on deposit at all times. We recommend that the County Clerk require the depository institution to pledge or provide collateral in an amount sufficient to secure deposits of public funds at all times.

County Clerk's Response:

This problem has been corrected.

PRIOR YEAR:

The prior year audit included a comment concerning the Clerk's pledge of securities. The amount of coverage was inadequate by \$109,280 as of April 15, 1999. In the current year audit, the amount that is not adequately covered is \$116,028 as of April 4, 2000. The Graves County Clerk is currently working with the county's financial institutions to resolve this problem for future audits.

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REPORT ON COMPLIANCE
AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF THE FINANCIAL STATEMENT
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



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Members of the Graves County Fiscal Court

**Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards**

We have audited the statement of receipts, disbursements, and excess fees of the Graves County Clerk for the year ended December 31, 2000, and have issued our report thereon dated January 4, 2002. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Graves County Clerk's financial statement for the year ended December 31, 2000, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance that is required to be reported under Government Auditing Standards which is described in the accompanying comment and recommendation.

- The County Clerk Should Require Depository Institutions To Pledge Or Provide Sufficient Collateral Of \$116,028 To Protect Deposits

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Graves County Clerk's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses.

Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Internal Control Over Financial Reporting (Continued)

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of management and is not intended to be and should not be used by anyone other than the specified party.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Ed Hatchett", with a long horizontal flourish extending to the right.

Edward B. Hatchett, Jr.
Auditor of Public Accounts

Audit fieldwork completed -
January 4, 2002

